HS3 TECHNOLOGIES INC.
Form 10-Q
May 16, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended March 31, 2011

OR

[ ] **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission file number 001-32289

HS3 TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

Nevada	**20-3598613**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1800 Boulder Street, Suite 600, Denver CO	**80211-6400**
(Address of principal executive offices)	(Zip Code)

(303) 455-2550
(Telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act

Large accelerated filer	[ ]	Accelerated filer	[ ]

Non-accelerated filer [ ] (Do not check if a smaller reporting company) Smaller reporting company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)
Yes [ ] No [X]

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court.
[ ] YES [ ] NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
[ ] YES [ ] NO

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. As of May 13, 2011, there were 69,816,636 shares of the registrant s Common Stock issued and outstanding

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report contains forward-looking statements including, but not limited to the following:

- certain statements, including possible or assumed future results of operations, in Management s Discussion and Analysis of Financial Condition and Results of Operations;
- any statements contained herein regarding the prospects for our business or any of our services;
- any statements preceded by, followed by or that include the words may, should , believes, expects, anticipates, intends, continues, estimates, plans, targets predicts, attempts, is scheduled, or similar expressions; ar
- other statements obtained herein regarding matters that are not historical facts.

Our business and results of operation are subject to risk and uncertainties, many of which are beyond our ability to control or predict. Because of these risks and uncertainties, actual results may differ materially from those expressed or implied by forward-looking statements, and investors are cautioned not to place undue reliance on such statements, which speak only as of the date thereof. Important factors that could cause actual results to differ materially from our expectations and may adversely affect our business and results of operations, include, but are not limited to those risk factors set forth in this report in Part II Other Information under the heading Item 1A. Risk Factors.

In this Quarterly Report, unless otherwise specified, all dollar amounts are expressed in United Sates dollars and all references to common shares refer to the common shares in our capital stock.

As used in this Quarterly Report, the terms we , us , our , our company and HS3, means HS3 Technologies, In our wholly-owned subsidiary, ip-Colo, Inc., unless the context clearly requires otherwise.

PART 1 FINANCIAL INFORMATION

Item 1. Financial Statements.

The interim unaudited condensed consolidated financial statements of HS3 Technologies, Inc. as of and for the three month and nine month period ended March 31, 2011, are included herein beginning on the following page. The accompanying interim unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and related notes for the year ended June 30, 2010, together with our discussion and analysis of financial condition and results of operations, included in our Annual Report on Form 10-K filed on September 29, 2010 with the Securities and Exchange Commission (File No. 001-32289). Our financial statements are stated in United States dollars (US$) and are prepared in accordance with United States Generally Accepted Accounting Principles.

The unaudited condensed consolidated financial statements include the accounts of HS3 Technologies, Inc. and our wholly-owned subsidiary, ip-Colo, Inc. All inter-company balances and transactions have been eliminated.

We have no off-balance-sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to stockholders.

HS3 Technologies, Inc.
Condensed consolidated balance sheets

	March 31, 2011 Unaudited	June 30, 2010 Audited
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 9,207	$ 34,915
Trade accounts receivable	388,648	8,449
Other receivable	-	7,913
Inventory	86,946	86,045
	484,801	137,322
Furniture, fixtures and equipment, net of accumulated depreciation of $158,837 and $114,538 respectively	25,145	34,522
Other assets, net	-	5,833
	$ 509,946	$ 177,677
LIABILITIES AND EQUITY		
Current Liabilities:		
Trade accounts payable	$ 199,984	$ 114,393
Other accrued liabilities	580,148	495,110
Subordinated notes payable	655,500	580,500
Note payable, current portion	245,000	-
Long-term debt, current portion	33,000	109,024
Other liabilities	-	28,000
Total Liabilities	1,713,632	1,327,027
Stockholders Equity (Deficit):		
Preferred stock, $0.0001 par value, 2,500,000 shares authorized, none issued or outstanding	-	-
Common stock owed, not issued, 0 shares at March 31, 2011 and 600,000 shares at June 30, 2010	-	600
Common Stock, $0.001 par value, 200,000,000 authorized, issued and outstanding 69,816,636 at March 31, 2011 and 68,116,636 at June 30, 2010	69,817	68,117
Additional paid-in capital	5,580,246	5,569,526
Accumulated deficit	(6,853,749)	(6,787,593)
	(1,203,686)	(1,149,350)
	$ 509,946	$ 177,677

See accompanying notes to condensed consolidated financial statements

HS3 Technologies, Inc.
Condensed consolidated statement of operations
Unaudited

	Three months ended March 31, 2011	Three months ended March 31, 2010	Nine months ended March 31, 2011	Nine months ended March 31, 2010
Revenue	$ 567,786	$ 36,990	$ 622,731	$ 100,776
Cost of goods sold	333,046	3,355	342,726	17,333
Gross profit	234,740	33,545	280,005	83,443
Operating Expenses:				
Selling, general and administrative	124,569	136,681	287,156	497,772
Depreciation and amortization	6,338	11,966	24,988	34, 694
Total operating expenses	130,907	148,647	312,144	532,466
Income(loss) from operations	103,833	(115,102)	(32,139)	(449,023)
Other income (expense):				
Interest expense, net	(24,538)	(24,058)	(34,017)	(113,243)
Total other income (expense)	(24,538)	(24,058)	(34,017)	(113,243)
Net Income(loss)	$ 79,295	$ (139,160)	$ (66,156)	$ (562,266)
Net income(loss) per share-basic and diluted	$ 0.001	$ (0.002)	$ (0.001)	$ (0.010)
Weighted average number of common shares outstanding	69,488,858	68,329,969	68,957,147	54,835,914

See accompanying notes to condensed consolidated financial statements

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HS3 Technologies, Inc.
Condensed consolidated statement of stockholders equity (deficit)

	Common Stock Shares	Common Stock Amount	Common Stock Owed Not Issued	Additional Paid-in Capital	Retained Earnings (Deficit)	Total Stockholders Equity (Deficit)
Balances as of June 30, 2008	39,945,802	$ 39,946	$ -	$ 4,333,459	$ (4,931,386)	$ (557,981)
Shares issued for cash	-	-		-	-	-
Shares issued for services/ cancellation of debt	2,050,000	2,050		51,542	-	53,592
Net loss	-	-		-	(1,176,419)	(1,176,419)
Balances as of June 30, 2009	41,995,802	$ 41,996	$ -	$ 4,385,001	$ (6,107,805)	$ (1,680,808)
Shares issued for cash	4,500,000	4,500		220,500	-	225,000
Shares issued for conversion of debt	15,500,000	15,500		759,500		775,000
Shares issued for cancellation of debt	5,870,834	5,871		176,125		181,996
Shares issued for services	250,000	250		5,000		5,250
Shares owed for services, not issued			600	23,400		24,000
Net loss	-	-		-	(679,788)	(679,788)
Balances as of June 30, 2010	68,116,636	$ 68,117	$ 600	$ 5,569,526	$ (6,787,593)	$ (1,149,350)
Shares issued for services	1,700,000	1,700	(600)	10,720	-	11,820
Net loss	-	-	-	-	(66,156)	(66,156)
Balances as of March 31, 2011	69,816,636	$ 69,817	$ -	$ 5,580,246	$ (6,853,749)	$ (1,203,686)

See accompanying notes to condensed consolidated financial statements

HS3 Technologies, Inc.
Condensed consolidated statement of cash flows
Unaudited

	Nine months ended March 31, 2011		2010	
Cash flows from operating activities:				
Net income(loss)	$	(66,156)	$	(562,266)
Adjustments to reconcile net loss to net cash provided by (used in) operations:				
Depreciation and amortization		24,988		34,694
Accretion of interest		2,689		4,034
Warrants, stock, and options issued for service		11,820		29,250
Changes in operating assets and liabilities:				
Accounts and other receivables		(372,286)		(24,411)
Inventory		(901)		7,926
Accounts payable and accrued liabilities		170,629		23,014
Net cash (used in) operating activities		(229,217)		(487,759)
Cash flow from investing activities:				
Additions to furniture, fixtures & equipment		(9,777)		(15,915)
Net cash (used in) investing activities		(9,777)		(15,915
Cash flow from financing activities:				
Sale of common stock		-		225,000
Proceeds (repayments) convertible notes payable		-		(25,000)
Proceeds (repayments) subordinated notes payable		75,000		187,500
Borrowing/repayments revolving credit agreement		245,000		-
Borrowings (repayments) long-term debt		(106,714)		(101,751)
Other accrued liabilities converted to equity		-		181,996
Net cash flow provided by (used in)financing activities		213,286		467,745
Increase (decrease) in cash and cash equivalents		(25,708)		(35,929)
Cash and cash equivalents, beginning of period		34,915		38,592
Cash and cash equivalents, end of period	$	9,207	$	2,663
Supplemental cash flow information:				
Interest paid	$	10,682		23,925
Income taxes paid	$		$	-
Non cash financing activities:				
Stock issued for services	$	11,820	$	29,250
Stock issued for other accrued liabilities	$	-	$	181,996
Stock issued for convertible notes payable	$	-	$	775,000
	$		$	

Subordinated notes payable issued for convertible notes payable	-	373,000

See accompanying notes to condensed consolidated financial statements

HS3 Technologies, Inc.

Notes to condensed consolidated financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

(a) Nature of Business

HS3 Technologies, Inc. (HS3 or the Company) was incorporated in Nevada on January 28, 2003. Prior to a name change in October 2005, the Company was known as Zeno, Inc. The Company also changed its fiscal year end from March 31 to June 30. In November 2005, the Company acquired ip-Colo, Inc., in a reorganization, a development stage corporation (herein referred to as ip-Colo). On the date of the reorganization, the Company, a non-operating entity without any assets or liabilities, was to provide advanced wireless technologies integrated with high-speed internet, via satellite, and to provide real-time security and monitoring for many industries.

The Company provides a diverse line of cutting edge products and services to meet the growing needs of the security industry. To meet the ever changing needs of the industry, we have launched a combination of state-of-the art products and services that include digital video recording technology (DVR), personal biometric identification units, CCTV, video monitoring centers, cellular networks, wireless mesh network units and wireless internet-linked satellite surveillance systems. This combination of products encompasses a total line that we believe will meet many commercial, agricultural, governmental, and residential customer security needs.

(b) Basis of presentation and use of estimates

The accompanying unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, these statements reflect adjustments (consisting only of normal recurring entries), which in our opinion, are necessary for a fair presentation of the financial results for the interim periods presented. Certain information and notes normally included in annual financial statements have been condensed in or omitted from these interim financial statements pursuant to such rules and regulations. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes for the year ended June 30, 2010, together with our discussion and analysis of financial condition and results of operations, included in our Annual Report on Form 10-K filed on September 29, 2010 with Securities and Exchange Commission.

Our accounting and financial reporting policies conform to accounting principles and practices generally accepted in the United States of America. The accompanying consolidated financial statements include the accounts of HS3 and its controlled subsidiaries. All significant inter-company accounts and transactions have been eliminated in the preparation of the accompanying condensed consolidated financial statements.

The preparation of financial statements in accordance with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses in the reporting period. The Company regularly evaluates estimates and assumptions related to the useful life and recoverability of long-lived assets, stock-based compensation and deferred income tax asset valuation allowances. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from the Company s estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

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(c) Cash and cash equivalents

We consider all short-term investments with a remaining maturity of three months or less at the date of purchase to be cash equivalents.

(d) Furniture, Fixtures and Equipment

Furniture, fixtures and equipment are recorded at historical cost, net of accumulated depreciation. Depreciation is computed using the straight-line method based on estimated useful lives (3-5 years). Expenditures for maintenance and repairs are charged to expense.

(e) Inventory

Inventory consists of finished goods purchased from third-party manufacturers and component parts and is valued at the lower of average cost or market. Average cost is determined using the first-in, first-out method of accounting.

(f) Long-lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss would be recognized when the carrying amount of an asset exceeds the estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition.

(g) Loss Per Share

Basic and diluted earnings (loss) per share are computed using the weighted average number of shares outstanding during the period. Diluted earnings per share gives effect to all potential diluted common shares outstanding during the period. In periods of net loss, there are no diluted earnings per share since the result would be anti-dilutive.

(h) Financial Instruments

The fair value of financial instruments is determined at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be ascertained with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying value of cash and cash equivalents, accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments.

(i) Income Taxes

We recognize deferred tax liabilities and assets for the expected future tax consequences of events that have been recognized in the Company s consolidated financial statements and tax returns using the liability method. Under this method, deferred tax liabilities and assets are determined based on the temporary differences between the consolidated financial statements and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expect to reverse.

(j) Equity-Based Compensation

Common stock, warrants, and options issued for services are accounted for based on the fair market value at the date the services are performed. If the awards are based on a vesting period the fair market value of the awards is determined as vesting is earned. If the services are to be performed over an extended period of time the value (if material) is amortized over the life of the period that services are performed.

(k) Concentration of Credit Risk

We sell products to customers in diversified industries and geographical regions. We continually evaluate the creditworthiness of our customers. We evaluate the collectability of accounts receivable on a combination of factors. Our policies require us to record specific reserve if we become aware of anything that would cause us to question a specific customer s inability to meet their financial obligations to us. We will record a specific reserve for bad debts to reduce a related receivable when we believe an amount is not collectible. We do not have any reserves for bad debt as of March 31, 2011.

(l) Revenue Recognition

We record revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the sales price to the customer is fixed or determinable, and collectability is reasonably assured.

(m) Reclassifications

Certain amounts in the prior periods have been reclassified to conform to the current period s presentation

2. GOING CONCERN

The accompanying condensed consolidated financial statements have been prepared assuming that we will continue as a going concern. Our ability to continue as a going concern is dependent upon us obtaining additional working capital to develop our business operations. We intend to use borrowings and/or security sales to mitigate the effects of our cash position; however, no assurance can be given that debt or equity financing, if and when required, will be available. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and classification of liabilities that might be necessary should we be unable to continue in existence.

3. OTHER ACCRUED LIABILITIES

Other accrued liabilities are as follows:

	March 31 , 2011	June 30, 2010
Accrued board fees	$ 170,832	$ 133,332
Accrued salaries, officers	80,000	80,000
Accrued liabilities, related parties	76,535	61,505
Accrued interest	237,572	218,176
Payroll liabilities	14,088	1,569
Sales tax payable	1,121	528
	$ 580,148	$ 495,110

Board fees to the two independent board of directors are $25,000 annually. The board members have the option to receive cash or convert into common stock at the rate of $0.12 or the rate of the last conversion agreement.

The Company leases office space from a company owned by an officer/director. The Company has accrued $76,535 as a related party liability.

Accrued interest represents interest on the subordinated notes payable and up to the time (November 24, 2009) in which the convertible notes payable were converted into equity.

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4. SUBORDINATED NOTES PAYABLE

At March 31, 2011, the following subordinated notes payable are outstanding: The notes bear interest at 12% and are on a month to month term. The Company recorded $19,396 interest for the quarter ended March 31, 2011.

William S. Dickey	$	575,000
Robert A. Morrison		80,500
	$	655,500

5. LONG-TERM DEBT

In February and March 2008 the Company, pursuant to a loan and security agreement, entered into two (2) $200,000 promissory notes. In addition, the Company issued to the lender a warrant for the purchase of one million (1,000,000) shares of common stock at a purchase price of $.12 per share with an expiration date of five (5) years after the commencement date of the first loan.

The notes have an interest rate of 15.499% and mature in three (3) years from the commencement date, and are collateralized with the Company s personal property as defined in the loan and security agreement. For the three months ended December 31, 2010, we recorded $1,735 as interest expense pursuant to the notes.

Each note also has a final payment fee of $14,000 that is due on the earlier to occur of the maturity date or prepayment. These fees are being amortized over the life of the loans with the obligation reflected in other long-term liabilities. For the three-months ended December 31, 2010, we amortized $1,555.

The $400,000 proceeds were allocated to each instrument based on the fair market value of each based on the Black-Scholes pricing model. The assumptions used in valuing the warrants were: stock price $.13; exercise price $.12, life 5 years; volatility 101.17%; dividend yield 0%; and the yield of a risk free investment 3.08% . We determined the fair value of the note and interest to be $400,000 and the fair market value of the warrants to be $16,814. We allocated the proceeds to each based on the respective percentages of total value. The value of the notes was $383,865 and the warrants $16,135.

On December 30, 2010 the Company entered into a loan payment modification/settlement agreement with the lender in which we paid $65,000 as a one-time payment and will pay a remaining balance of $36,000 as the settlement of the outstanding balance and accrued interest on these notes. The discount on the notes was accrued into interest expense through the date of the settlement agreement. For the nine months ended March 31, 2011 we recorded $2,689 as additional interest expense and amortized $5,833 of other assets. The lender also subordinated to our subordinated notes payable. The $36,000 will be paid at $3,000 a month through January 10, 2012 at zero interest.

6. NOTE PAYABLE

On December 17, 2010, the Company entered into a one year promissory note with a commercial bank. The note is a revolving line of credit, wherein the Company can receive advances up to $250,000. The note bears interest at 3.85% and is guaranteed pursuant to a Guaranty Fee Agreement between William S. Dickey and the Company, wherein the Company pays Mr. Dickey a monthly fee of $1,250 to provide the guaranty. At March 31, 2011 the Company had $245,000 outstanding on this line of credit.

7. COMMON STOCK

During fiscal year ended June 30, 2009 we: (a) issued 1,800,000 shares of our common stock for financial services rendered to us (valued at $32,000) and (b) issued 250,000 shares of our common stock for cancellation of $21,592 of accounts payable to a third party.

During fiscal year ended June 30, 2010 we: (a) issued 4,500,000 shares of our common stock for $225,000 which was used to repay $150,000 of convertible and subordinated notes payable; (b) issued 15,500,000 shares of our common stock to convert $775,000 of convertible notes payable; (c) issued 5,870,834 shares of our common stock to two officers for cancellation of $181,996 of accrued salaries, and (d) issued 250,000 shares of our common stock for services rendered to us.

On February 28, 2010 the Board voted to issue 600,000 shares of our common stock for financial consulting services rendered to us effective February 1, 2010. We valued the 600,000 shares based on the quoted trade price on February 1, 2010 ($.04) and recorded $24,000 as contract services. As of September 30, 2010, these shares are owed, but not issued. These shares were issued on October 4, 2010.

On October 4, 2010 the Board voted to issue 600,000 share of our common stock for financial consulting services rendered to us. We valued the 600,000 shared based on the quoted trade price on October 4, 2010 ($.0097) and recorded $5,820 as contract services.

On March 1, 2011, the Company issued 500,000 shares of our common stock to a new employee. We valued the 500,000 shares based on the quoted trade price on March 1, 2011 ($.012) and recorded $6,000 as contract services.

Pursuant to the 2005 Stock Option Plan, the Board of Directors had granted 2,500,000 options under the plan. At March 31, 2011, 1,300,000 options (with an exercise price of $.1667) are outstanding which expire in March 2012.

8. SUBSEQUENT EVENTS

In April 2011, the Company borrowed a total of $40,000 from two private investors pursuant to similar subordinated notes. The notes bear interest at 12% and are on a month to month term.

On March 4, 2011 we announced that Mr. Gilliam had signed a letter of intent for the acquisition of WizardWorks by our company. In furtherance of the transaction contemplated in the letter of intent, on April 27, 2011 our company entered into a Teaming Agreement and Employment Agreement (the Agreement) with Chester A. Gilliam and his company WizardWorks Security Systems Inc. (the Subcontractor). Under the Agreement the Subcontractor will provide us with products and services set out in the Agreement (the Program) and our company will compensate the Subcontractor for participation in the Program by providing a $360,000 bonus and the concurrent issuance of 500,000 shares of our company s common stock as follows:

- The $360,000 bonus will be divided into three annual installments equal to the lesser of $120,000 per annum or 50% of the revenue received from WizardWorks accounts during that period. The Program bonus will be paid at the end of each calendar quarter. If during any quarter the total revenue received from WizardWorks accounts is less than $60,000, the installment for that quarter will be calculated to minimally equal 50% of the total revenues received from WizardWorks. If over the three year term the amount paid to WizardWorks is less than $360,000 this agreement will continue for one year increments until paid. Our company has the sole right to accelerate payments to reach the agreed $360,000 at any time during the term.
- The issuance of 500,000 shares of our company s common stock on execution of the Agreement;

In consideration for the above, our company will receive, record, and dispense all revenue from WizardWorks as of January 1, 2011 and may invoice customers under the WizardWorks name or our company s name.

At the completion of the bonus payments, our company has the right to assume the WizardWorks name and logo for $1.00.

Our company will pay the Subcontractor $400 per month rent for the uses of the Subcontractor s premises. Upon thirty day written notice we may vacate premises, remove all equipment and terminate the rental arrangement.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Critical Accounting Polices and Estimates

The following discussion and analysis of the results of operations and financial condition should be read in conjunction with the accompanying unaudited condensed consolidated financial statements.

A summary of the significant accounting policies that we have adopted and followed in the preparation of our condensed consolidated financial statements is detailed in our consolidated financial statements for the year ended June 30, 2010, included in our Annual Report on Form 10-K filed on September 29, 2010.

Our financial statements and accompanying notes are prepared in accordance with generally accepted accounting principles in the United States. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. These estimates and assumptions are affected by management s application of accounting policies. We believe that understanding the basis and nature of the estimates and assumptions involved with the following aspects of our financial statements is critical to an understanding of our financials.

We base our assumptions and estimates on historical experience and other sources that we believe to be reasonable at the time. Actual results may vary from our estimates due to changes in circumstances, weather, politics, global economics, mechanical problems, general business conditions and other factors. Our significant estimates are related to the valuation of our stock issued for services, warrants and options.

Corporate History

We were incorporated under the laws of the State of Nevada on January 28, 2003 under the name Zeno, Inc. On November 9, 2005, we closed on an asset purchase agreement with IP-Colo, Inc. (IPC) wherein we acquired all of the assets of IPC. IPC was in the development stage of providing advanced wireless technologies, integrated with high-speed internet via satellite to provide real-time security and monitoring for many industries. On or about October 10, 2005, we changed our name to HS3 Technologies, Inc.

On November 4, 2009, at the annual and special meeting of stockholders of our company, our authorized capital increased to 200,000,000 shares of common stock with a par value of $0.001.

Current Business

Our company has expanded its technical installation service with a focus on the Quick Serve Restaurant market (QSR).

Effective December 10, 2010 we entered into a master subcontract agreement with Insight Direct USA, Inc., an Illinois corporation, and its affiliate Calence, LLC dba Insight Networking, a Delaware limited liability corporation. Pursuant to the agreement, our company will be a master provider of technical and installation services to an internationally renowned QSR chain. Our company s efforts have been refocused toward the services required by the QSR. Under the terms of the agreement with Insight our company will provide Insight with IT services set forth in any statement of work issued by Insight. Each statement of work is a separate agreement that identifies a specific scope of work to be performed by our company.

Under the agreement our company s duties include:

- participating in meetings with Insight and clients for whom we are performing services;
- keeping Insight informed as to progress and any delays in our services;

- providing Insight with any operational information, on request, including time sheets, installation scripts, performance logs, survey information, or inventory records related to its performance;
- make a good faith effort to reach mutually acceptable provisions and adjustments with any statement of work to meet client requirements and expectations;
- ensure that our employees, contractors and agents conduct themselves in a professional manner and comply with reasonable requests and standard procedures and policies concerning working hours, safety and security rules applicable to those working at Insight or any client s facilities

Prices for services will be mutually agreed upon and set forth in any statement of work or purchase order issued against such statement of work. Insight will pay all undisputed invoices within 30 days of receipt of invoices from our company and shall receive a 3% discount on any invoices paid within 10 days of receipt.

The agreement is effective until terminated on (i) 45 days prior written notice by either party to the other (ii) if either party becomes insolvent, enters bankruptcy, reorganization or other similar proceedings, admits in writing its inability to pay debts, or makes or attempts to make an assignment for the benefit of creditors.

Our company is providing labor; trained installation teams to install cable, network upgrades of point of sale terminals, install software, and upgrade servers and cameras. The service that our company is providing is necessary for the QSR to meet federally mandated Payment Card Industry Data Security Standards compliant requirements assembled by the Payment Card Security Standards Council.

To date our company s installation teams have successfully completed installations in ten states from coast to coast servicing multiple sites within each market. The teams have provided the position of clean-up team provider to our service offering. Clean-up teams are responsible for resolving technical and installation issues left unfinished by other services providers. We are very comfortable becoming the expert and lead provider of choice to the QSR. It is our ability to acquire highly qualified individuals and allowing them to excel within our company s structure that continues to keep our company s in the forefront of providing exceptional service.

Insight estimates over 18,000 locations for the QSR will require Payment Card Industry Data Security Standards compliant installation and services to point of sale terminals over the next two years. Our master subcontract agreement entitles us to an initial 3,120 locations. To complete the estimated number of installations over the period HS3 will need to train and deploy sufficient numbers of service teams to install 144 locations per week. Our company anticipates deploying 36 three-man teams to reach a goal of 144 installations per week. In this early stage of the project the company has deployed 8 three-man teams. HS3 technicians complete the two day training and testing at a facility in our Denver monitoring center. Between 10 and 16 qualified candidates participate in each training session with approximately 95% qualifying as Team members . Two additional staff will be required to supervise the field teams .

Our company has recently increased services offered to the expanding self- storage market. Teams trained to service the QSR market have the ability to install systems and provide service to self- storage customers. Installing video cables and cameras, and providing video analytics through our remote video monitoring and data center fill a need lacking with-in the self- storage industry.

Our company anticipates the addition of these two service markets will substantially improve our outlook in the near future.

On April 27, 2011 our company entered into a teaming agreement and employment agreement with Chester A. Gilliam and his company WizardWorks Security Systems Inc. (the Subcontractor). Under the agreement the Subcontractor will provide us with products and services set out in the agreement (the Program) and our company will compensate the Subcontractor for participation in the Program by providing a $360,000 bonus and the concurrent issuance of 500,000 shares of our company s common stock as follows:

- The $360,000 bonus will be divided into three annual installments equal to the lesser of $120,000 per annum or 50% of the revenue received from WizardWorks accounts during that period. The Program bonus will be paid at the end of each calendar quarter. If during any quarter the total revenue received from WizardWorks accounts is less than $60,000, the installment for that quarter will be calculated to minimally equal 50% of the total revenues received from WizardWorks. If over the three year term the amount paid to WizardWorks is less than $360,000 this agreement will continue for one year increments until paid. Our company has the sole right to accelerate payments to reach the agreed $360,000 at any time during the term.

• The issuance of 500,000 shares of our company s common stock on execution of the Agreement;

In consideration for the above, our company will receive, record, and dispense all revenue from WizardWorks as of January 1, 2011 and may invoice customers under the WizardWorks name or our company s name.

At the completion of the bonus payments, our company has the right to assume the WizardWorks name and logo for $1.00.

Our company will pay the Subcontractor $400 per month rent for the uses of the Subcontractor s premises. Upon thirty day written notice we may vacate premises, remove all equipment and terminate the rental arrangement.

We have expanded our market strategies with a diverse new line of cutting edge products and services to meet the growing needs of the security industry by providing a single source portal to our customers with products and services in combinations that complete the security and monitoring matrix. To meet the ever changing needs of the industry, we have launched a combination of state-of-the art products and services that include digital video recording technology (DVR), video monitoring centers, biometric access control, personal biometric identification units, cellular and wireless mesh network units and wireless internet-linked satellite surveillance systems. This combination of products encompasses a total line that we believe will meet many customer security needs. Our monitoring center in Denver, Colorado serves as a single point security solutions portal, integrating our proprietary analytical software, network security, and video products.

Our company integrates technology, services and people into solutions that enhance the level of security protection and surveillance services. Our company s goal is to become a security portal, with cutting-edge technology applications and solutions specifically tailored to meet the security needs of various customers. All of the products and services, including biometric access control, satellite remote monitoring, and DVRs are security related. Unlike many security companies that focus exclusively on security hardware sales, our company s value proposition is to offer proprietary products to generate recurring revenue for our company in the form of monitoring and equipment licensing fees. We view the installation of our hardware products as the entry vehicle into a long-term technological relationship with our customers. We continually enhance our existing products by periodically re-designing them to accommodate our customer needs.

We are primarily an intellectual capital company. Our company both develops HS3 s proprietary technology, and acquires and integrates appropriate industry technology to provide surveillance solutions customized to the requirements of our customers. Our established mission is to be:

The trusted security architect providing vision when it matters.

As a security architect, we provide professional architectural, design and engineering to develop system solutions for our customers as desired by our customers. This concept is the foundation of our intellectual capital and core competencies. We use intellectual capital of our employees and the surveillance industry to architect and design solutions that provide customers vision and situational awareness. This acquired knowledge is transformed to innovations that are proprietary to our company. This occurs in part, through:

• Increased knowledge of new solutions and industry advancements
• Developing new systems
• Product and application enhancements
• Applications of new components
• Designing new, proprietary software

We have a sustainable competitive advantage in our ability to merge existing technology with the latest innovations in satellite broadband service, IP hardware, proprietary software, and access control security products. We have the expertise, capacity, staff, and ability to monitor sites located anywhere in the United States and Canada. Our Denver monitoring facility has access to 1.7 terabytes per second of ground-based internet capability for interfacing purposes. We developed the technologies, proved the concepts, and started implementation, and market penetration. We have focused on the rural and farm animal/production market to date. There are six primary markets where our technology can excel in providing greater access, better performance and lower cost:

- Producers of Animal Products
- Homeland Security
- Hospitality
- Petroleum Industry
- Educational Facilities
- Construction Projects
- Self-Storage Facilities

PRODUCERS OF ANIMAL PRODUCTS:

As the developer and architect of a video monitoring system (VMS) and surveillance program, we have refined the capabilities of our satellite video product and other surveillance technologies including their implementation. We also have the ability to provide service to remote areas underserved by high speed internet or cable providers.

Within a climate of increasing concerns over food safety, security and animal welfare a tremendous market is evolving. We have developed surveillance products primarily video, to address these issues in the livestock production industry and to a lesser extent the food processing industry. Our solutions are developed to convey to consumers a sense of confidence in the quality of the food they eat, and that the producer has incorporated appropriate stewardship in animal production processes. For the producer this provides risk mitigation, enhanced production and value added branding.

Through the combined use of proprietary technology, including innovations, video analytics, and DVR s our company has developed state-of-the-art wireless, internet linked cellular, and satellite linked surveillance systems. We are in a unique position to be the first company with national surveillance capabilities, to provide an independent third party monitoring verification system to the public that increases their level of confidence in fundamentally important industries. Our surveillance and monitoring provides these assurances with a certified humane brand, whether acquired or created and generated in house.

Animal protein producers desire increased market share that hold margins while requiring value in programs they utilize. Our true measures of value can be assessed through increased profits and the realization of risk mitigation.

Our surveillance program allows:

- Producers to demonstrate stewardship with archived video.
- Producers to employ HS3 as a third party independent verifier of video for the establishment and certification labeling of food products at the market shelf, i.e. the logo/brand assures consumer that the food they purchased for their family has been raised humanely and handled safely.
- Producers to monitor animal behavior at remote locations and improve production efficiencies including herd disease awareness.
- Management to assure employees work within standards required to maintain the highest levels of risk mitigation and animal stewardship.
- Rebuttal to undercover video by animal activist groups.

Our company s VMS and surveillance program provide the above criteria with a very low cost of entry that was modeled after a typical cable TV system. The equipment is provided to the producers who pay a monthly equipment license fee with requisite subscription fees for monitoring services. To further lower barriers of entry, our program removes the high front end equipment costs to the producers.

We intend to enter and penetrate into the animal welfare, protein and production business by contracting with various producers, associations, and/or companies that can use our surveillance services as a part of any value-added welfare/stewardship and production brand that they choose. As the architect of the surveillance system, we are able to provide specific elements (as designed and tailored by the producer/company) of our monitoring services to customers while maintaining ownership of the proprietary VMS system.

Over the prior year, we have determined proof of a market and penetration concept of the technology and also of our business model. Our strategy is to maintain market penetration with us as a vendor to associations/producers and/or companies desiring various certification programs. We are attempting to seize this initiative in the livestock arena because there is a significant opportunity to expand our service to meet the needs of additional protein producers in pork, beef, poultry, and dairy industries.

HOMELAND SECURITY:

We have installed (on a beta test) remote video products for the U.S. Coast Guard, enabling the monitoring of and relaying of the physical location of freight trains at ports of entry. The product relays GPS and live video over a cellular network.

Our covert deployment system is one of the products developed that is technologically advanced. The covert deployment system allows the utilization of cellular technology and provides a physically small footprint for loss prevention operations. These systems utilize SMS messaging for alerting and motion detection or other triggers to activate video that records perpetrators on the enclosed drive, simultaneously sending attached photos to our secured portal. It is estimated there are 13,000 active train locomotives currently in the United States spread over 7 companies. Homeland Security is concerned about the risk to the public should a locomotive and its cargo become hijacked or compromised. We have developed and deployed a biometric access control system which limits access to the locomotive. In addition, we implemented GPS and video monitoring transmitted in real-time over a cellular network to a centralized monitoring center. We have completed beta testing on 28 locomotives with good results and feedback and are awaiting customer feedback.

HOSPITALITY:

As in America s schools, security for the hospitality industry is becoming increasingly important. Hotels are trending toward increasing guest security measures as a result of injury and liability litigation. Additionally hotel operators are becoming more concerned with improving general security for guests. Our internet protocol surveillance system enhances and augments the hotel s ability to monitor the hotel s perimeter and access to guest areas.

We provide hotels a reliable source for web hosting. An ancillary advantage of our video monitoring system is the ability for the hotel to offer their video on web sites as an inexpensive, effective advertising tool.

PETROLEUM INDUSTRY:

The petroleum industry spends millions of dollars and man hours monitoring oil and gas wells throughout the country. Many oil and gas wells are in remote areas and, aside from typical maintenance and production monitoring, there is a constant threat of vandalism, sabotage and product theft. Today, all monitoring of wells requires that an employee be physically present at a well to perform necessary inspections. We are working with industry leaders to eliminate this labor-intensive process. After installation of our petroleum surveillance package, customers can monitor their assets from anywhere in the world using the internet. In addition, we have, and continue to form strategic alliances with providers of complementary monitoring products that mesh with our satellite products and provide well operators with real-time information to enhance well production.

We have researched, developed and installed a remote monitoring device called OPIE an Outdoor Portable Investigative Equipment surveillance vehicle. The device has been used to successfully monitor gas wells in remote Wyoming for three years. The original concept having been proven to the customer, an oil and gas producer, has expressed desire in purchasing additional OPIEs for their expansion to new fields.

EDUCATIONAL FACILITIES:

Even in today s high-speed world, there are numerous school districts, rural and urban, waiting for high-speed internet access and video monitoring. We can provide the services required for maintaining and improving security.

The federal government has mandated schools comply with the Homeland Security Act, which in part requires video surveillance. With our system installed, security information is available via the internet and our secured portal to individuals with the proper security clearance.

Providing schools with satellite broadband access to the internet at megabytes-per-second speeds, web hosting services, and the ability to observe activities in and around the school with digital cameras make our company a uniquely positioned provider. Our advanced technology and low cost of entry structure allows us to offer education facilities products meeting requirements of Homeland Security.

CONSTRUCTION PROJECTS:

HS3 is working with three national construction companies to provide remote video security deploying the company s OPIE product. When installed, OPIE provides recurring revenue through live video monitoring of remote job sites. Captured video is transmitted to the Denver monitoring center for analytics and event classification. Management is confident that the increasing need for remote security will continue, and open untapped markets for our proprietary cost effective solution. Uniquely positioned our company feels the market for our OPIE technology will continue to grow for years to come.

HS3 is continuing to work with a national livestock trailer manufacturing company to provide its proprietary video technology in trailers that monitor animal welfare and handling during transportation, loading, and unloading. Our company is in the second year of deploying this technology and has reached a threshold where it s ready for this market. HS3 has the technology and capability to provide the solution to the livestock industry, solving transportation monitoring requirements.

SELF-STORAGE FACILITIES:

Over the last 30 years the self-storage industry has typically employed part-time guard services to randomly check their properties during off hours. HS3 has a solution that offers continuous surveillance utilizing our company s technology and Denver monitoring center to provide 24/7/365 monitoring, improving both monitoring and reduced costs.

RESULTS OF OPERATIONS:

<u>Nine Months Ended March 31, 2011 and 2010</u>

<u>Revenue and cost of goods sold.</u>

We primarily derive revenue from our operations by (i) providing technical installation services to the QSR market and (ii) by charging monthly fees for providing integrated equipment, monitoring, hosting, labor and other technology services as well as equipment sales to our customers. Our revenue and cost of goods sold for the three month period ended March 31, 2011 and 2010 are outlined in the table below:

	Three months ended March 31, 2011		2010	
Contract Revenue:				
Equipment license/monitoring fees	$	2,850	$	16,558
QSR		530,709		-
Revenue sharing from Teaming Agreement		26,760		
Domain/business hosting fees		925		3,156
Other (discounts taken)		(2,532)		550
		558,712		20,264
Other Revenue:				
Equipment sales		5,529		6,626
IT Services		3,545		10,010
Other		-		-
		9,074		16,636
Revenue		567,786		36,900
Cost of goods sold - Equipment		(3,022)		(3,355)
Cost of goods sold QSR		(330,024)		-
	$	234,740	$	33,545

During the quarter ended March 31, 2011, our technical installation services to the QSR market expanded as we started to handle the demand pursuant to our master subcontract agreement with Insight Direct USA, Inc. During the quarter ended March 31, 2011, we serviced 269 locations.

Selling, general and administrative expenses.

Our selling, general and administrative expenses for the three month period ended March 31, 2011 and 2010 are outlined in the table below:

	Three months ended March 31, 2011 2011		2010	
Wages & employee benefits	$	76,801	$	36,548
Contract services		12,445		29,611
Board Fees		12,500		12,500
Accounting, audit and tax expenses		3,000		5,500
Legal		242		5,232
Stock transfer/shareholder/proxy/filing fees		55		2,591
Other professional fee/filings		608		-
Rent		1,200		6,859
Utilities		-		691
Computer network services		-		760
Computer server/internet fees		896		-

Advertising/domain registration		7		2,800
Telephone		2,568		20,194
Travel, meals and entertainment		1,750		1,503
Research & development		50		644
Insurance		7,467		7,693
Other expenses		4,980		3,555
	$	124,569	$	136,681

Selling, general and administrative expenses decreased during the three month period ended March 31, 2011 to $124,569 as compared to $136,681for the three month period ended March 31, 2010. This decrease is due primarily to lower telephone costs and contract services, offset by higher wages and employee benefits.

Nine Months Ended March 31, 2011 and 2010

Revenue and Cost of goods sold.

We primarily derive revenue from our operations by (i) providing technical installation services to the QSR market and (ii) by charging monthly fees for providing integrated equipment, monitoring, hosting, labor and other technology services as well as equipment sales to our customers. Our revenue and cost of goods sold for the nine month period ended March 31, 2011 and 2010 are outlined in the table below:

	Nine months ended March 31,			
		2011		2010
Contract Revenue:				
Equipment license/monitoring fees	$	23,122	$	45,467
QSR		534,388		-
Revenue sharing from Teaming Agreement		26,760		-
Domain/business hosting fees		2,756		6,804
Other (discounts taken)		(2,532)		2,723
	$	584,494	$	54,994
Other Revenue:				
Equipment sales	$	18,091	$	26,636
IT Services		20,146		19,146
	$	38,237	$	45,782
Revenue	$	622,731	$	100,776
Cost of goods sold - Equipment		(12,702)		(17,333)
Cost of goods sold QSR		(330,024)		-
	$	280,005	$	83,443

Our revenues for the nine month period ended March 31, 2011 increased to $622,731 as compared to $100,776 for the nine month period ended March 31, 2010 as we have started to focus on the QSR part of our business. During the nine months ended March 31, 2011, we serviced 273 locations.

Selling, general and administrative expenses.

Our selling, general and administrative expenses for the nine month period ended March 31, 2011 and 2010 are outlined in the table below:

	Nine months ended March 31, 2011		2010
Wages & employee benefits	$ 145,894		$ 163,636
Contract services	19,005		112,687
Board Fees	37,500		37,500
Accounting, audit and tax expenses	28,500		28,000
Legal	1,728		17,439
Stock transfer/shareholder/proxy fees	1,520		7,709
Other professional fees/filings	2,102		-
Rent	982		17,600
Utilities	8,855		15,874
Computer network services	720		1,465
Computer server/internet fees	1,843		2,288
Advertising/domain registration	221		4,471
Telephone	11,467		47,224
Travel, meals and entertainment	5,855		8,152
Research & development	2,174		1,364
Insurance	19,074		17,385
Other expenses	(12,915)		14,978
	$ 274,525		$ 497,772

Selling, general and administrative expenses for the nine month period ended March 31, 2011 decreased by 45% as compared to the comparative period in 2010 primarily due to lower third party contract services expenses. Other expenses included $21,556 of bad debts written off, offset by approximately $45,000 gain on the settlement of our long term debt.

Liquidity and Capital Resources

Our primary liquidity needs are to fund our working capital requirements and future capital expenditures. Our ability to continue as a going concern is dependent upon obtaining additional working capital to develop our business operations. We intend to use borrowings and security sales to mitigate the effects of our cash position; however, due to current conditions in the debt and equity markets, no assurance can be given that debt and/or equity financing, if and when required, will be available.

Working Capital	March 31, 2011	June 30, 2010	Percentage Increase/ (Decrease)
Current Assets	$ 484,801	$ 137,322	
Current Liabilities	1,713,632	1,327,027	
Working Capital (deficit)	$ (1,228,831)	$ (1,189,705)	(3.3%)

Cash Flows	Nine months ended March 31, 2011	Nine months ended March 31, 2010
Net cash (used in) operating activities	$ (229,217)	$ (487,759)
Net cash (used in) by investing activities	(9,777)	(15,915)
Net cash flow provided by (used in) financing activities	213,286	467,745
Increase (decrease) in cash and cash equivalents	$ (25,708)	$ (35,929)

Our cash on hand at March 31, 2011 was approximately $9,000. We have made a concentrated effort over the past year to continue to reduce our selling, general and administrative expenses, which had a cash burn rate of approximately $40,000 per month during the three months ended March 31, 2011. Over the long term we may require additional funds in order to hire additional contractors and book travel arrangements far enough in advance to utilize discount rates, to scale up to meet the demand of the master subcontract agreement with Insight. We anticipate relying on cash flows from operations, equity offerings, and debt financing for such expansion.

Contractual Obligations

As a smaller reporting company , we are not required to provide tabular disclosure obligations.

Going Concern

Our ability to continue as a going concern is dependent upon our obtaining additional working capital to develop business operations. We intend to use borrowings and equity sales to mitigate the effects of our cash position; however, no assurance can be given that debt or equity financing, if and when required, will be available.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to stockholders.

Item 3. Quantitative and Qualitative Disclosures About Market Risks

As a smaller reporting company , we are not required to provide the information required by this Item.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer, principal financial officer and principal accounting officer, we have conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined under the *Securities and Exchange Act of 1934*, as amended, as of the end of the period covered by this report. Based on this evaluation, our principal executive officer, principal financial officer and principal accounting officer concluded as of March 31, 2011 that our disclosure controls and procedures were effective.

Changes in Internal Controls Over Financial Reporting

There have been no changes in our internal controls over financial reporting that occurred during the quarter ended March 31, 2011 that have materially or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

None

Item 1A. Risk Factors.

Much of the information included in this report includes or is based upon estimates, projections or other forward-looking statements . Such forward-looking statements include any projections or estimates made by us and our management in connection with our business operations. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions, or other future performance suggested herein. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of such statements. Such estimates, projections or other forward-looking statements involve various risks and uncertainties as outlined below. We caution readers of this report that important factors in some cases have affected and, in the future, could materially affect actual results and cause actual results to differ materially from the results expressed in any such estimates, projections or other forward-looking statements . In evaluating us, our business and any investment in our business, readers should carefully consider the following factors.

Our new business operations will be subject to a number of risks and uncertainties, including those set forth below:

Risks Related To Our Business

We will require significant additional financing, the availability of which cannot be assured, and if we are unable to obtain such financing, our business may fail.

Our business plan calls for significant expenses necessary to continue the development of our business and expand our position in the market. There is no assurance that actual cash requirements will not exceed our estimates. We may need to raise additional funds to:

- support our planned growth;
- develop or enhance new and existing security products;
- increase our marketing efforts;
- acquire complementary businesses, security products or technologies; and/or
- respond to competitive pressures or unanticipated requirements.

We have not yet achieved sustainable positive cash flows. As such, we will depend to a large extent on outside capital over the near-term to fund our capital needs. Such outside capital may be obtained from additional debt and or equity financing. We do not currently have any arrangement for financing and there is no assurance that capital will be available to meet our operating costs or, if the capital is available, that it will be on terms acceptable to us. The issuance of additional equity securities by us would result in a dilution in the equity interests of our current shareholders. Obtaining commercial loans, assuming those loans would be available, will increase our liabilities and future cash commitments. If we are unable to obtain financing in the amounts and on terms deemed acceptable to us, we may be unable to implement our business and growth strategies, respond to changing business or economic conditions, withstand adverse operating results, consummate desired acquisitions or compete effectively.

We operate in a highly-competitive industry and our failure to compete effectively may adversely affect our ability to generate revenue.

We are aware of similar security products and services which compete directly with our security products and services and some of the companies developing these security products and services have significantly greater financial, technical and marketing resources, larger distribution networks, and generate greater revenue and have greater name recognition than us. These companies may develop security products superior to those of our company. Such competition will potentially affect our chances of achieving profitability, and ultimately adversely affect our ability to continue as a going concern.

Some of our competitors conduct more extensive promotional activities and offer lower prices to customers than we do, which could allow them to gain greater market share or prevent us from increasing our market share. In the future, we may need to decrease our prices if our competitors continue to lower their prices. Our competitors may be able to respond more quickly to new or changing opportunities, technologies and customer requirements.

To be successful, we must carry out our business plan, establish and strengthen our brand awareness through marketing, effectively differentiate our product line from those of our competitors and build our distribution network. To achieve this we may have to substantially increase marketing and research and development in order to compete effectively. Such competition will potentially affect our chances of achieving profitability, and ultimately adversely affect our ability to continue as a going concern.

Rapid technological changes in our industry could render our security products or services non-competitive or obsolete and consequently affect our ability to generate revenues.

We will derive all of our revenues from the sale, licensing or leasing of our security products and services. Such security products and services are characterized and affected by rapid technological change, evolving industry standards and regulations and changing client preferences. Our success will depend, in significant part, upon our ability to make timely and cost-effective enhancements and additions to our technology and to introduce new security products and services that meet customer demands. We expect new security products and services to be developed and introduced by other companies that compete with our security products and services. The proliferation of new and established companies offering similar security products and services may reduce demand for our particular security products and services. There can be no assurance that we will be successful in responding to these or other technological changes, to evolving industry standards or regulations or to new security products and services offered by our current and future competitors. In addition, we may not have access to sufficient capital for our research and development needs in order to develop new security products and services.

We could lose our competitive advantages if we are not able to protect our proprietary technology and intellectual property rights against infringement, and any related litigation could be time-consuming and costly.

Our success and ability to compete depends in part on our proprietary technology incorporated in our security products. If any of our competitors copy or otherwise gain access to our proprietary technology or develop similar technologies independently, we would not be able to compete as effectively. We consider our technologies invaluable to our ability to continue to develop and maintain the goodwill and recognition associated with our brand. The measures we take to protect our technologies, and other intellectual property rights, which presently are based upon registered trademarks in addition to trade secrets, may not be adequate to prevent their unauthorized use.

Although we rely, in part, on contractual provisions to protect our trade secrets and proprietary know-how, there is no assurance that these agreements will not be breached, that we would have adequate remedies for any breach or that our trade secrets will not otherwise become known or be independently developed by competitors. Further, the laws of foreign countries may provide inadequate protection of intellectual property rights. We may need to bring legal claims to enforce or protect our intellectual property rights. Any litigation, whether successful or unsuccessful, could result in substantial costs and a diversion of corporate resources. In addition, notwithstanding any rights we have secured to our intellectual property, other persons may bring claims against us claiming that we have infringed on their intellectual property rights, including claims that our intellectual property rights are not valid. Adverse determinations in litigation in which we may become involved could subject us to significant liabilities to third parties, require us to grant licenses to or seek licenses from third parties and prevent us from manufacturing and selling our security products. Any claims against us, with or without merit, could be time-consuming and costly to defend or litigate, divert our attention and resources, result in the loss of goodwill associated with our trademarks or require us to make changes to our technologies. Furthermore, we cannot assure you that any pending patent application made by us will result in an issued patent, or that, if a patent is issued, it will provide meaningful protection against competitors or competitor technologies.

We may not be able to hire and retain qualified personnel to support our growth and if we are unable to retain or hire such personnel in the future, our ability to improve our security products and services and implement our business objectives could be adversely effected.

To continue to grow, we will need to recruit additional senior management personnel, including persons with financial and sales experience. In addition, we must hire, train and retain a significant number of other skilled personnel, including persons with experience in sales and marketing. We have encountered competition for these personnel. We may not be able to find or retain qualified personnel, which may have a material adverse impact on our business.

We have a history of losses and negative cash flows, which is likely to continue unless our security products gain sufficient market acceptance to generate a commercially viable level of sales.

Although we anticipate that we will be able to start generating increased revenues during the next 12 months, we also expect an increase in development and operating costs. Consequently, we expect to incur operating losses and net cash outflows unless and until our existing security products and services, and or any new security products that we may develop or acquire, gain market acceptance sufficient to generate a commercially viable and sustainable level of sales.

We may be dependent upon third party manufacturers to produce our security products. We could be adversely affected by an increase in our manufacturers services or a significant decline in our manufacturers financial condition. As a result, our business may fail and investors may lose their entire investment.

As a quality assurance and efficiency measure, we plan to manufacture our own security products and additionally contract some manufacturing to third parties. We could be adversely affected by an increase in our manufacturer s prices of manufacturing services or a significant decline in our manufacturer s financial condition. If the relationships with any one of our manufacturers is terminated and we are not successful in establishing a relationship with an alternative manufacturer who offers similar services at similar prices, our results of operations could be adversely affected, our business may fail and investors may lose their entire investment.

The limitation of any one of our manufactures available manufacturing capacity due to significant disruption in their manufacturing operation could have a material adverse effect on sales revenue and results of operations and financial condition.

We will be dependent upon third party manufacturers to produce some of our security products. If production at any one of our manufacturers manufacturing plant is disrupted for any number of reasons, manufacturing yields may be adversely affected and we may be unable to meet our customer s requirements. Consequently, our customers may purchase security products from our competitors. This could result in a significant loss of revenues and damage to our customer relationships, which could materially adversely affect our business, results of operations or financial condition.

Unless we can establish significant sales of our current security products and services, our potential revenues may be significantly limited.

We expect that a substantial portion, if not all, of our future revenue will be derived from the licensing of our security products and services. We expect that these security products and services and their extensions and derivatives will account for a majority, if not all, of our revenue for the foreseeable future. The successful introduction and broad market acceptance of our security products - as well as the development, introduction and market acceptance of any future enhancements - are, therefore, critical to our future success and our ability to generate revenues. Unfortunately, there can be no assurance that we will be successful in marketing our current product offerings, or any new product offerings, applications or enhancements. Failure to achieve broad market acceptance of our security products, as a result of competition, technological change, or otherwise, would significantly harm our business.

There is a high risk of business failure due to the fact that we have not commenced commercial operations with positive cash flow.

Although we are in the early stages of developing and implementing the commercialization of our security products and services, there is no assurance that we will be able to successfully develop sales of our security products and services. Thus we have no way of evaluating whether we will be able to operate the business successfully, and there is no assurance that we will be able to achieve profitable operations.

Potential investors should be aware of the difficulties normally encountered in developing and commercializing new security products and the high rate of failure of such enterprises. The likelihood of success must be considered in light of the problems, expenses, difficulties, complications and delays encountered in connection with the commercialization process that we plan to undertake. These potential problems include, but are not limited to, unanticipated problems relating to development, manufacture and financing of our security products. If we are unsuccessful in addressing these risks, our business will most likely fail.

If we fail to effectively manage our growth our future business results could be harmed and our managerial and operational resources may be strained.

As we proceed with the commercialization of our security products and services, we expect to experience significant and rapid growth in the scope and complexity of our business. We will need to add staff to market our security services, manage operations, handle sales and marketing efforts and perform finance and accounting functions. We will be required to hire a broad range of additional personnel in order to successfully advance our operations. This growth is likely to place a strain on our management and operational resources. The failure to develop and implement effective systems, or to hire and retain sufficient personnel for the performance of all of the functions necessary to effectively service and manage our potential business, or the failure to manage growth effectively, could have a materially adverse effect on our business and financial condition.

Our security products and services may become obsolete and unmarketable if we are unable to respond adequately to rapidly changing technology and customer demands.

Our industry is characterized by rapid changes in technology and customer demands. As a result, our security products and services may quickly become obsolete and unmarketable. Our future success will depend on our ability to adapt to technological advances, anticipate customer demands, develop new security products and services and enhance our current security products and services on a timely and cost-effective basis. Further, our security products and services must remain competitive with those of other companies with substantially greater resources. We may experience technical or other difficulties that could delay or prevent the development, introduction or marketing of new security products and services or enhanced versions of existing security products and services. Also, we may not be able to adapt new or enhanced security products or services to emerging industry standards, and our new security products or services may not be favorably received.

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Demand for our security products and services might be insufficient for us to become profitable.

We cannot predict with certainty the potential consumer demand for our security products or services or the degree to which we will meet that demand. If demand for our security products or services do not develop as expected and achieve consumer market acceptance, we might not be able to generate enough revenue to become profitable or to sustain our operations. We plan to target the sale of our security products and services to four primary customer groups; agricultural, commercial, government, and residential. We have based our strategy to target these consumers on a number of assumptions, some or all of which could prove to be incorrect. Even if markets for our service develop, we could achieve a smaller share of these markets than we currently anticipate.

Risks Related To Our Common Stock

A decline in the price of our common stock could affect our ability to raise further working capital and adversely impact our operations.

A prolonged decline in the price of our common stock could result in a reduction in the liquidity of our common stock and a reduction in our ability to raise capital. Because our operations have been financed through the sale of equity securities, a decline in the price of our common stock could be especially detrimental to our liquidity and our continued operations. Any reduction in our ability to raise equity capital in the future would force us to reallocate funds from other planned uses and would have a significant negative effect on our business plans and operations, including our ability to develop new products and continue our current operations. If the stock price declines, there can be no assurance that we can raise additional capital or generate funds from operations sufficient to meet our obligations. We believe the following factors could cause the market price of our common stock to continue to fluctuate widely and could cause our common stock to trade at a price below the price at which you purchase your shares of common stock:

- actual or anticipated variations in our quarterly operating results;
- announcements of new services, products, acquisitions or strategic relationships by us or our competitors;
- changes in accounting treatments or principles;
- changes in earnings estimates by securities analysts and in analyst recommendations; and
- general political, economic, regulatory and market conditions.

The market price for our common stock may also be affected by our ability to meet or exceed expectations of analysts or investors. Any failure to meet these expectations, even if minor, could materially adversely affect the market price of our common stock.

If we issue additional shares of common stock in the future, it will result in the dilution of our existing shareholders.

Subsequent to shareholder approval at our November 4, 2009 annual meeting, our certificate of incorporation authorizes the issuance of 200,000,000 shares of common stock. Our board of directors has the authority to issue additional shares of common stock up to the authorized capital stated in the certificate of incorporation. Our board of directors may choose to issue some or all of such shares of common stock to acquire one or more businesses or to provide additional financing in the future. The issuance of any such shares of common stock will result in a reduction of the book value or market price of the outstanding shares of our common stock. If we do issue any such additional shares of common stock, such issuance also will cause a reduction in the proportionate ownership and voting power of all other shareholders. Further, any such issuance may result in a change of control of our corporation.

If a market for our shares of common stock does not develop, shareholders may be unable to sell their shares of common stock.

There is currently a limited market for our common stock, which trades through the Over-the-Counter Bulletin Board quotation system. Trading of stock through the Over-the-Counter Bulletin Board is frequently thin and highly volatile. There is no assurance that a sufficient market will develop in the stock, in which case it could be difficult for shareholders to sell their stock.

Trading of our stock may be restricted by the Securities and Exchange Commission s penny stock regulations which may limit a stockholder s ability to buy and sell our stock.

The Securities and Exchange Commission has adopted regulations which generally define penny stock to be any equity security that has a market price (as defined) less than $5.00 per share or an exercise price of less than $5.00 per share, subject to certain exceptions. Our securities are covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and accredited investors . The term accredited investor refers generally to institutions with assets in excess of $5,000,000 or individuals with a net worth in excess of $1,000,000 or annual income exceeding $200,000 or $300,000 jointly with their spouse. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the Securities and Exchange Commission which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer s account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer s confirmation. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser s written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules discourage investor interest in and limit the marketability of, our common stock.

The Financial Industry Regulatory Authority, or FINRA, has adopted sales practice requirements, which may limit a stockholder s ability to buy and sell our shares of common stock.

In addition to the penny stock rules described above, the FINRA has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low-priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer s financial status, tax status, investment objectives and other information. Under interpretations of these rules, FINRA believes that there is a high probability that speculative low-priced securities will not be suitable for at least some customers. FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy and sell our stock and have an adverse effect on the market for our shares.

Other Risks

Trends, Risks and Uncertainties.

We have sought to identify what we believe to be the most significant risks to our business, but we cannot predict whether, or to what extent, any such risks may be realized nor can we guarantee that we have identified all possible risks that might arise. Investors should carefully consider all of the risk factors before making an investment decision with respect to our common stock.

We may be unable to continue as a going concern in which case our securities will have little or no value.

Our independent auditors have noted in their report concerning our financial statements as of June 30, 2010 that we have incurred substantial losses since inception, which raises substantial doubt about our ability to continue as a going concern. In the event we are not able to continue operations you will likely suffer a complete loss of your investment in our securities.

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Our By-laws contain provisions indemnifying our officers and directors against all costs, charges and expenses incurred by them.

Our By-laws contain provisions with respect to the indemnification of our officers and directors against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, actually and reasonably incurred by him, including an amount paid to settle an action or satisfy a judgment in a civil, criminal or administrative action or proceeding to which he is made a party by reason of his being or having been one of our directors or officers.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None.

Item 4. [Removed and Reserved]

Item 5. Other Information

None

Item 6. Exhibits

Exhibits required by Item 601 of Regulation S-K

Exhibit Number	Description
(3)	**Articles of Incorporation and Bylaws**
3.1	Articles of Incorporation (incorporated by reference from our Registration Statement on Form SB-2 filed on August 2, 2004).
3.2	By-laws (incorporated by reference from our Registration Statement on Form SB-2 filed on August 2, 2004).
3.3	Certificate of Change filed with the Nevada Secretary of State on December 1, 2009 and filed on Form 10-Q on February 12, 2010.
(4)	**Instruments Defining the Rights of Security Holders, Including Indentures**
4.1	2005 Stock Option Plan of HS3 Technologies, Inc. (incorporated by reference from our Current Report on Form 8-K filed on November 10, 2005).
(10)	**Material Contracts**
10.1	Share Purchase Agreement dated March 5, 2005 among Zeno Inc., Linda Smith, Acropolis Investment Holdings, LLC and Gregory S. Yanke Law Corporation (incorporated by reference from our Current Report on Form 8-K filed on March 10, 2005).
10.2	Asset Purchase Agreement dated August 31, 2005, between Zeno Inc. and IP-Colo, Inc. (incorporated by reference from our Current Report on Form 8-K filed on September 16, 2005).
10.3	Surveillance Installment and Training Agreement dated December 20, 2005 (incorporated by reference from our Current Report on Form 8-K filed December 23, 2005).

Exhibit Number	**Description**
10.4	Partnership Agreement with Wright-Hennepin Cooperative Electric Association (incorporated by reference from our Current Report on Form 8-K filed on June 11, 2007).
10.5	Distribution Agreement with Autostar Technology Private Limited (incorporated by reference from our Current Report on Form 8-K filed on April 4, 2007).
10.6	Warrant Purchase Agreement dated November 6, 2007 (incorporated by reference from our Current Report on Form 8-K filed on November 20, 2007).
10.7	Agreement with the American Humane Association (incorporated by reference from our Current Report on Form 8-K filed on August 14, 2008)
10.16	Master Subcontract Agreement effective December 10, 2010 with Insight Direct USA, Inc. (incorporated by reference from our Current Report on Form 8-K filed April 28, 2011)
10.17	Teaming Agreement and Employment Agreement dated February 1, 2011 with Chester Gilliam (incorporated by reference from our Current Report on Form 8-K filed April 28, 2011).
(14)	**Code of Ethics**
14.1	Code of Ethics and Business Conduct (incorporated by reference from our Annual Report on Form 10-KSB filed on October 10, 2007).
21	**Subsidiaries of the Registrant**
21.1	**Ip-Colo, Inc.**
31	**Section 302 Certifications**
31.1	Section 302 Certification (filed herewith).
(32)	**Section 906 Certification**
32.1	Section 906 Certification (filed herewith).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HS3 TECHNOLOGIES, INC.
(Registrant)

Dated: May 16, 2011

/s/ Mark Lana
Mark Lana
Chief Executive Officer and Director
(Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer)